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7 August 1971

MEMORANDUM FOR: Director of Central Intelligence  
SUBJECT : US Balance of Payments Continues  
to Deteriorate

1. This memorandum is for your information. At this week's Interagency Balance of Payments Forecasting Committee, the following conclusions were reached:

a. The US balance of payments is deteriorating rapidly. A trade deficit of between \$1 and \$2 billion is expected for full-year 1971.

b. As measured by the current account balance, (trade, services, tourist outlays, remittances, and government grants) our balance of payments will be \$2.6 billion in the red this year, compared with a surplus of \$450 million last year. Our basic balance, which adds long-term capital flows to the current account, will be in deficit by about \$8.5 billion, compared with \$3.0 billion in 1970, it is believed.

c. Our inability to dampen inflationary pressures bears heavily on the increasing trade gap. The 1972 trade deficit is now forecast to be twice that of the current year.

2. It seems inevitable that we are going to have another international monetary crisis. The US has done nothing to correct the fundamental payments disequilibrium (an economist's term meaning things are badly out of whack) which contributed so largely to the May upheaval.

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3. It is difficult to predict precisely when the next crisis will come. It could be triggered by any number of developments -- a German refusal to accept more U.S. Treasury notes for marks, a French demand for gold in exchange for dollar holdings (which are constantly becoming more overvalued), or massive speculative activity brought on by public knowledge of the bad news set out in para. 1 above. In the meantime, the U.S. government's foreign reserves continue to fall, as European central banks gradually increase their demands on our remaining gold stocks.

4. OER will wrap this up in an intelligence memorandum to be published in mid-week.

STATINTL

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Director  
Economic Research

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